

Developments for the Natural Gas Distribution Channel

Presented by:

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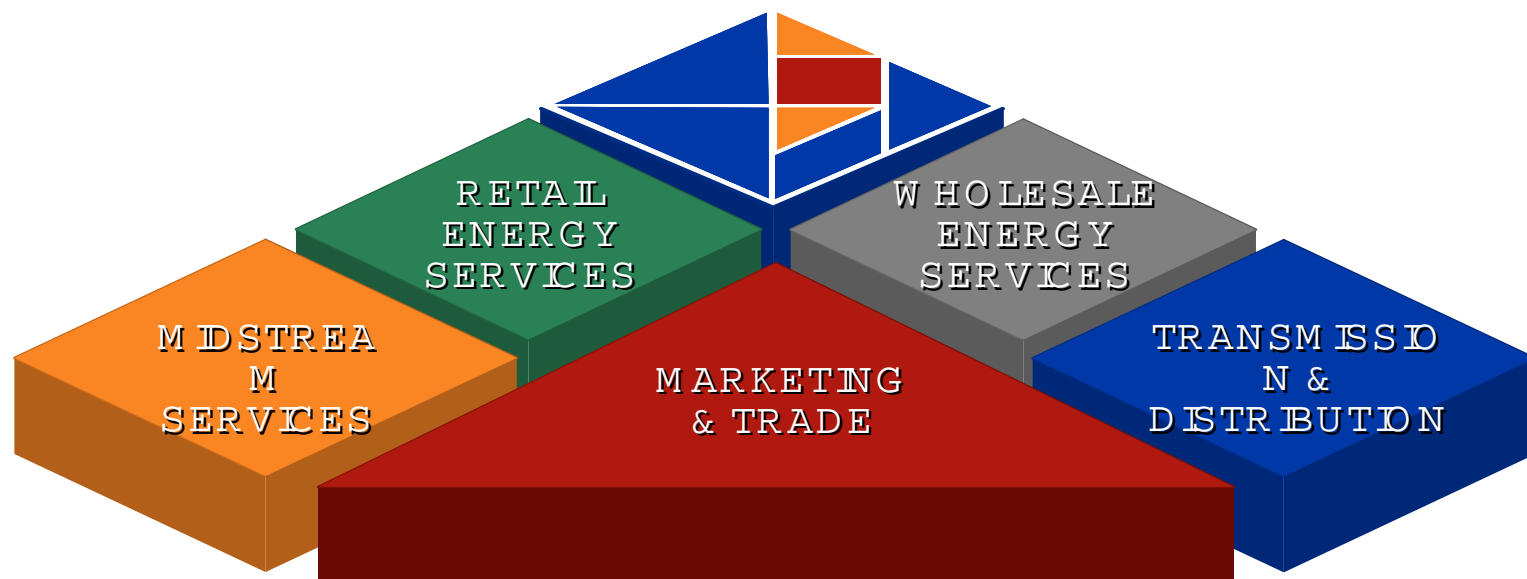
MAY, 2002

AGENDA

- **Dynegy Overview**
- **Changes in Natural Gas Market Fundamentals**
- **Evolution of the Natural Gas Distribution Channel**
- **Summary**

DYNEGY'S GLOBAL REACH

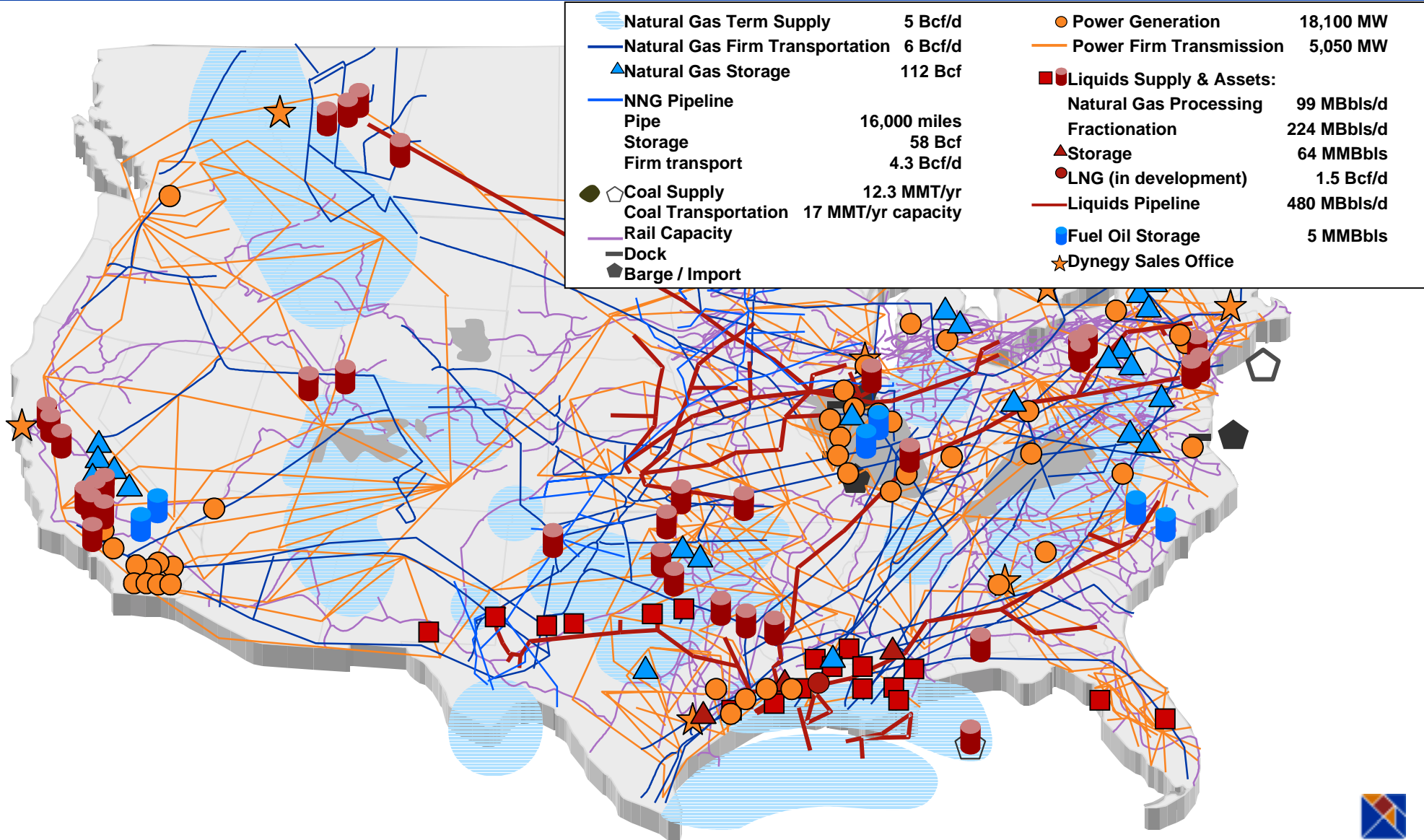
A GLOBAL PROVIDER OF ENERGY DELIVERY SERVICES



- \$42 Billion Revenues
- \$26 Billion Assets*
- 6700+ Employees
- 18,100 MW Generation Control
- 12.6 Bcf/d Natural Gas Sales
- 317 MM MWh Total Power Sales
- 43 MM Tons Coal Sales
- 557 MBbls/d Liquids Sales

*As of March 2002

DYNEGY ENERGY NETWORK- UNITED STATES



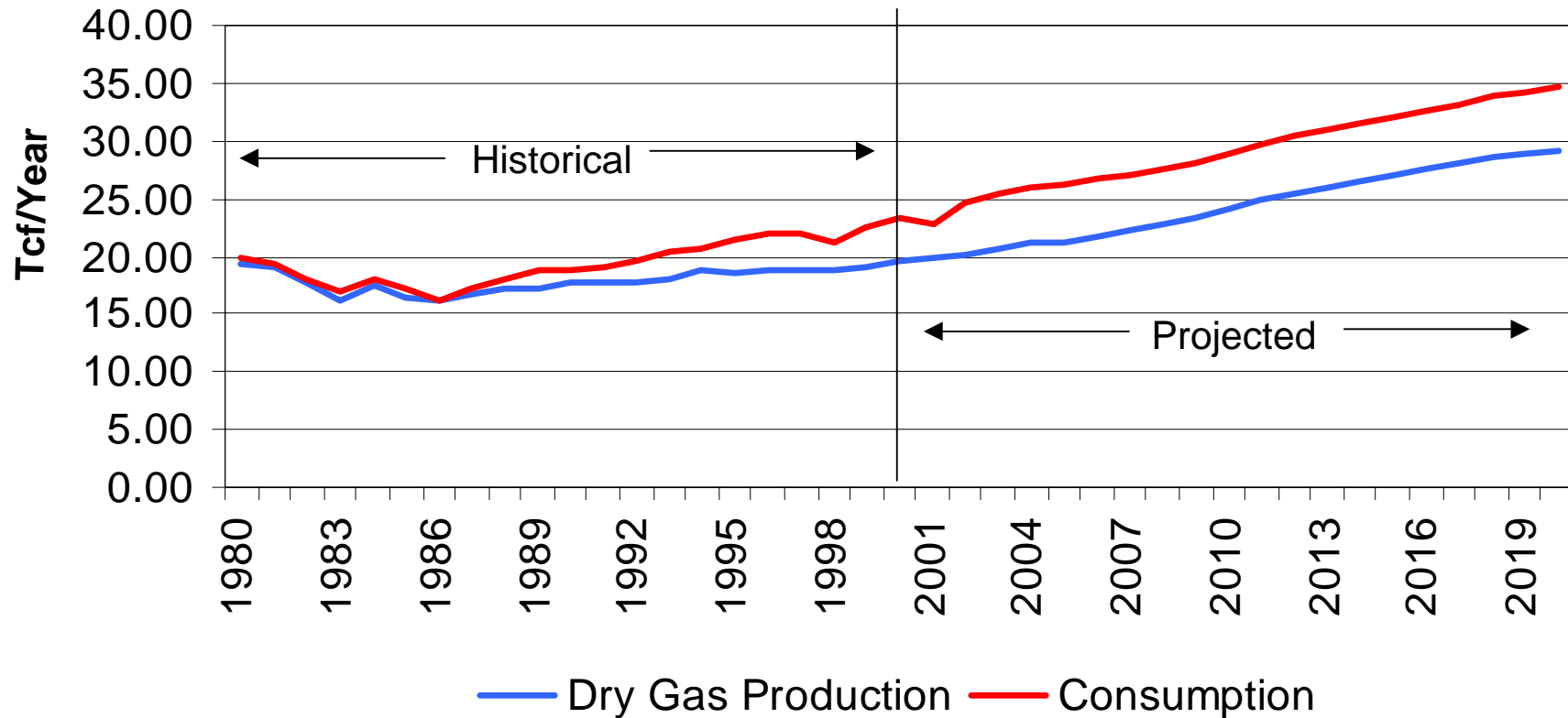
* March 1, 2002

FUNDAMENTAL CHANGES IN THE SUPPLY/DEMAND OF NATURAL GAS

- **Widening Gap between Domestic Supply and Demand**
- **Increase in Natural Gas Demand**
- **Inability for Domestic Resources to Quickly Respond to Market Signals**
- **Growing Reliance Upon New Frontier Gas**
- **Increased Transparency of Market Signals**

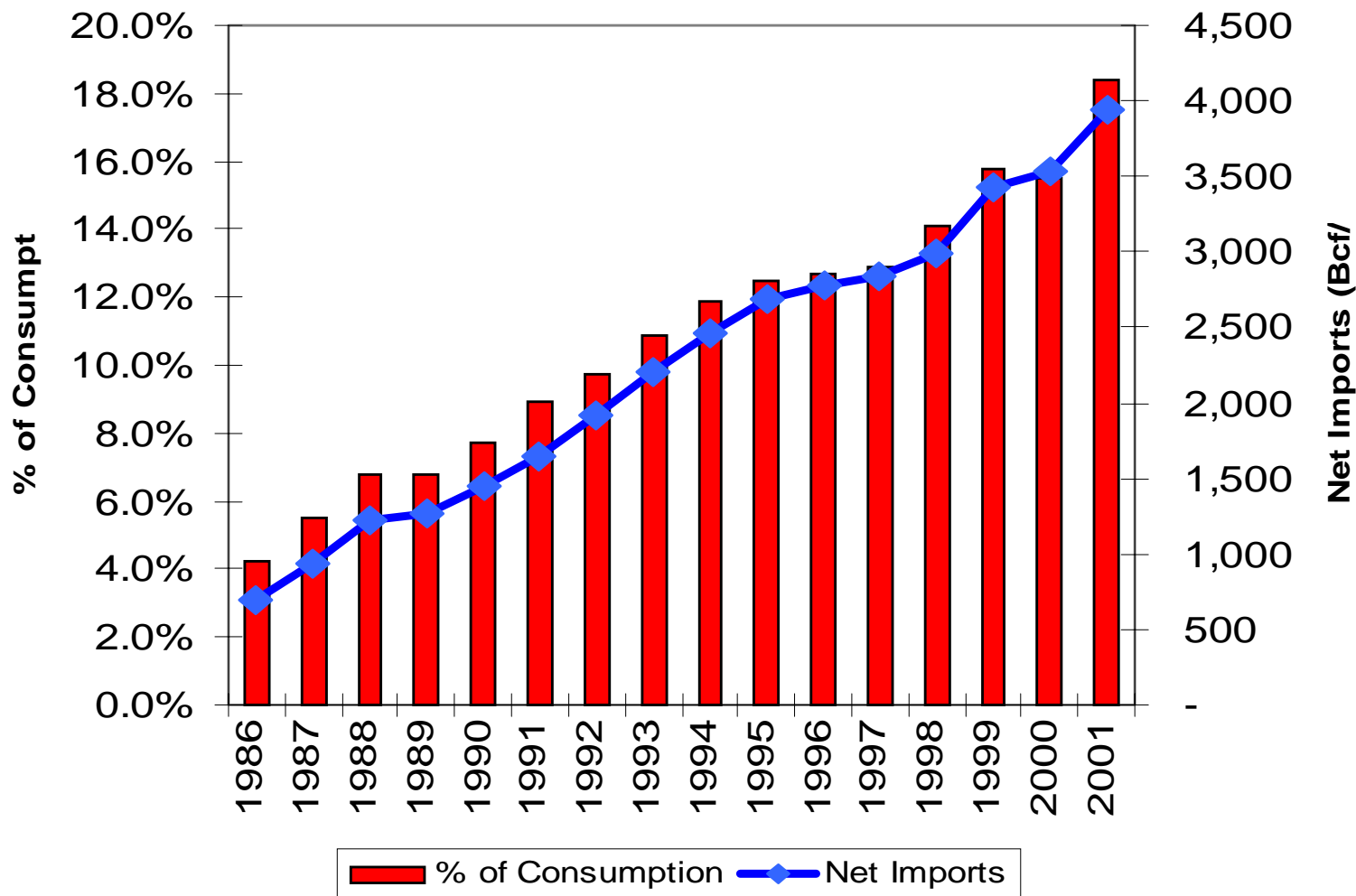
U.S. SUPPLY/DEMAND BALANCE

U.S. Natural Gas Consumption and Production, 1980-2020



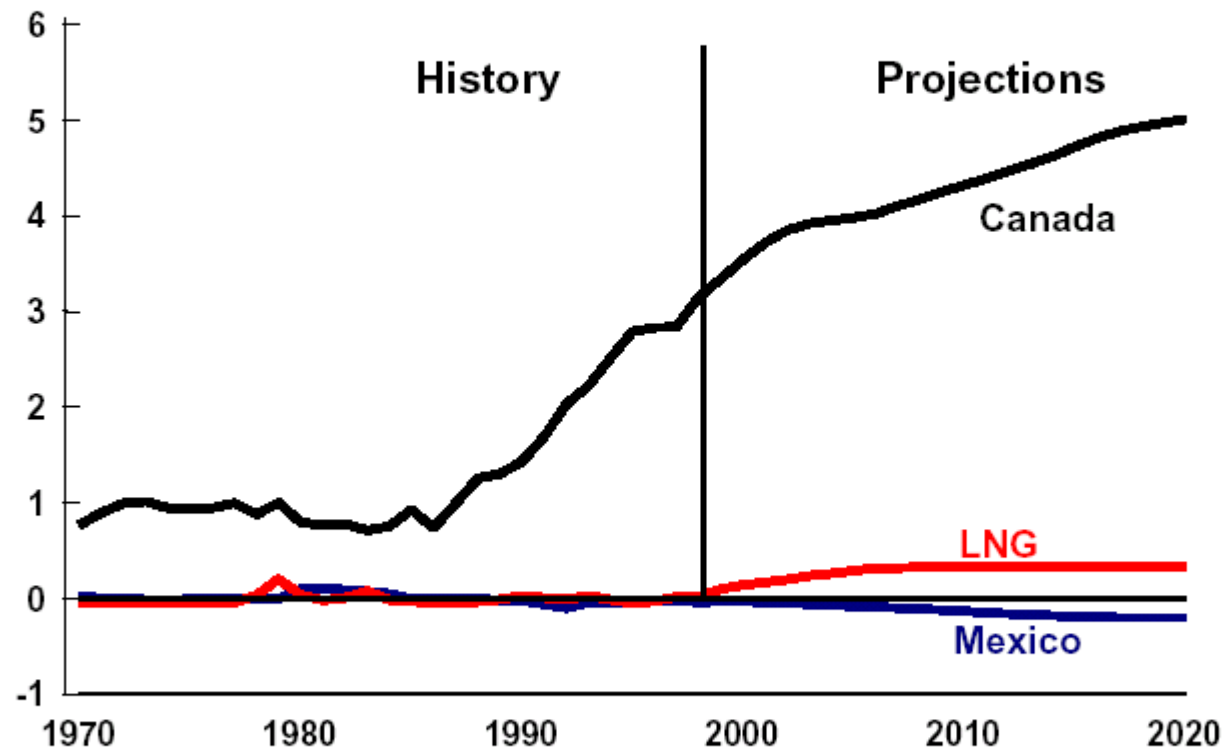
GROWING RELIANCE UPON IMPORTS TO MEET DEMAND

U.S. Natural Gas Imports as a % of Total Consumption 1986-2001



GROWING RELIANCE UPON IMPORTS TO MEET DEMAND

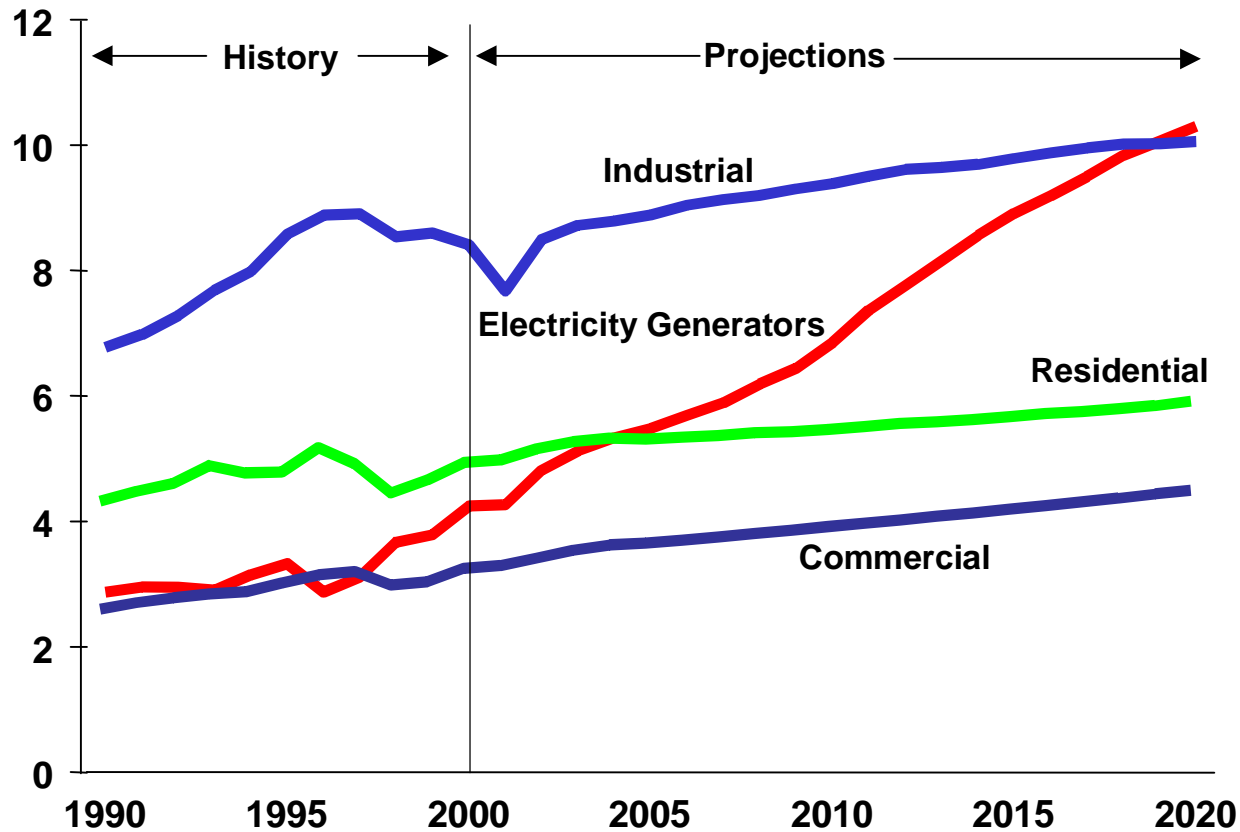
U.S. Natural Gas Net Imports, 1970-2020 (trillion cubic feet)



Source: EIA

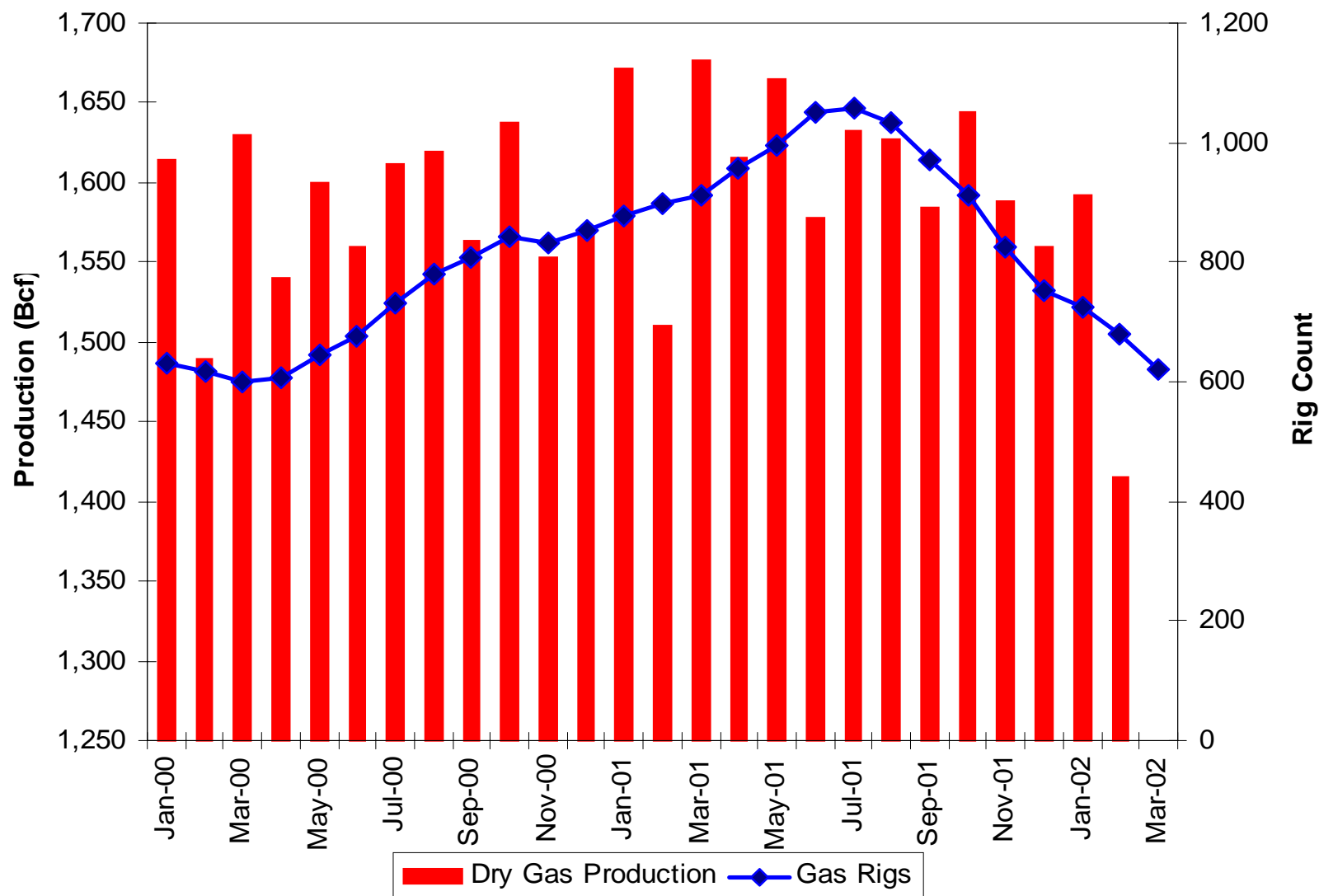
U.S. NATURAL GAS DEMAND

U.S. Natural Gas Demand, Forecasted Growth (Tcf/Year)



LIMITATIONS ON DOMESTIC PRODUCTION CAPABILITY

U.S. Natural Gas Production vs. Rig Count



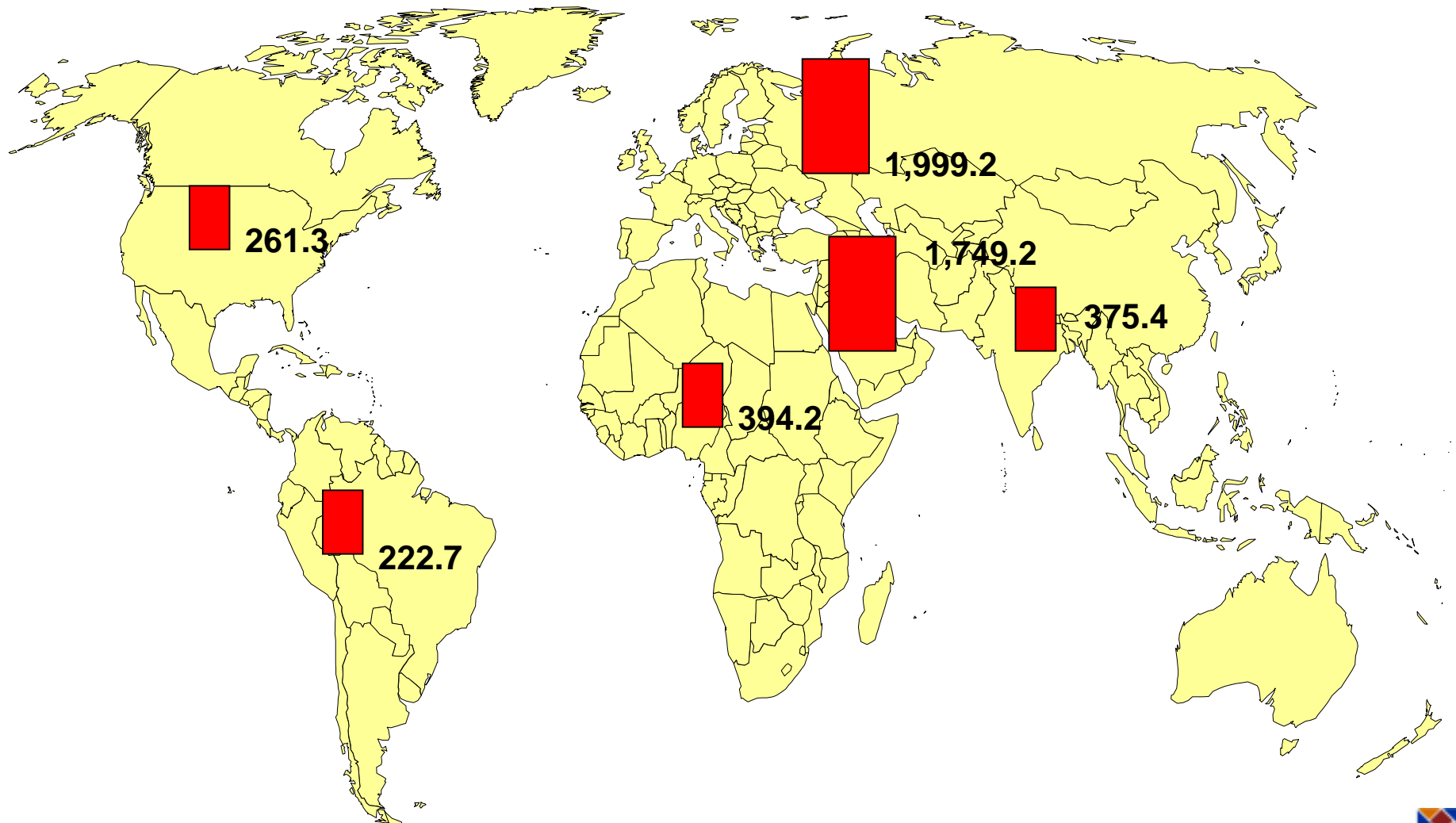
U.S. FRONTIER GAS



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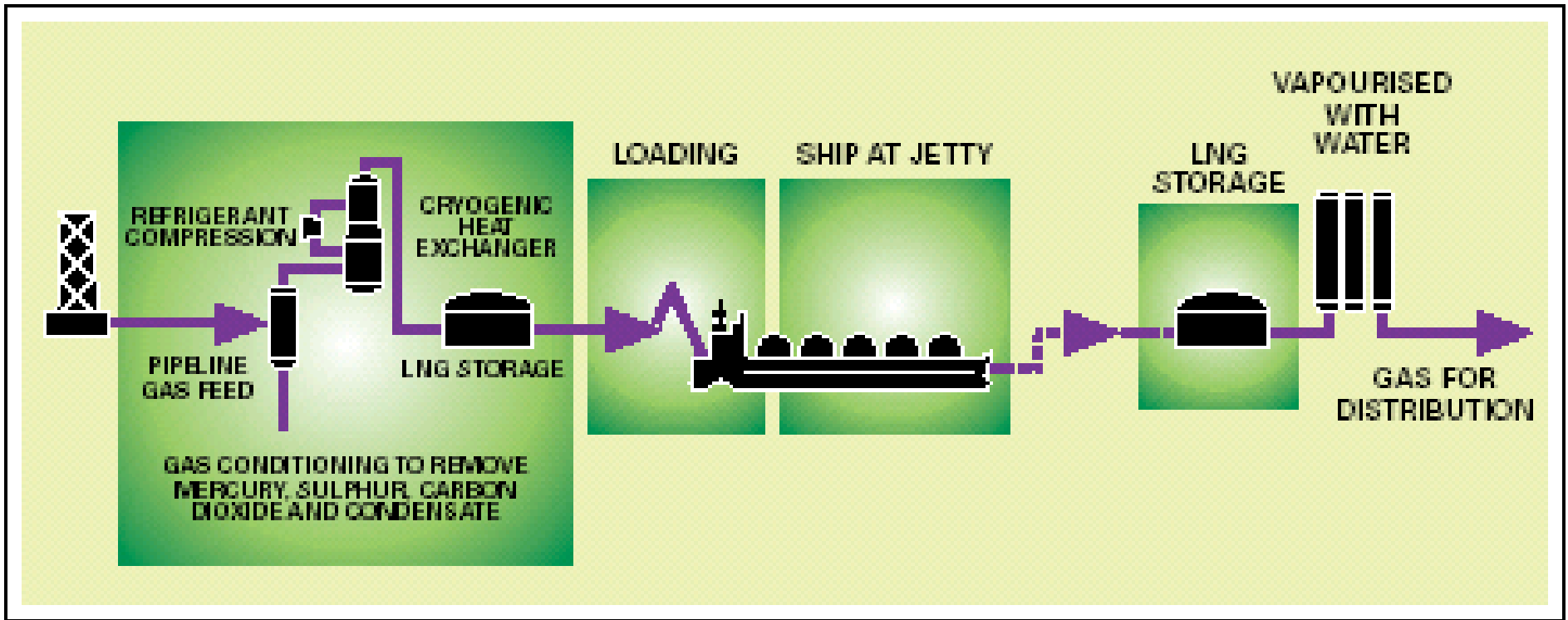
GLOBAL DISTRIBUTION OF GAS RESERVES (TCF)



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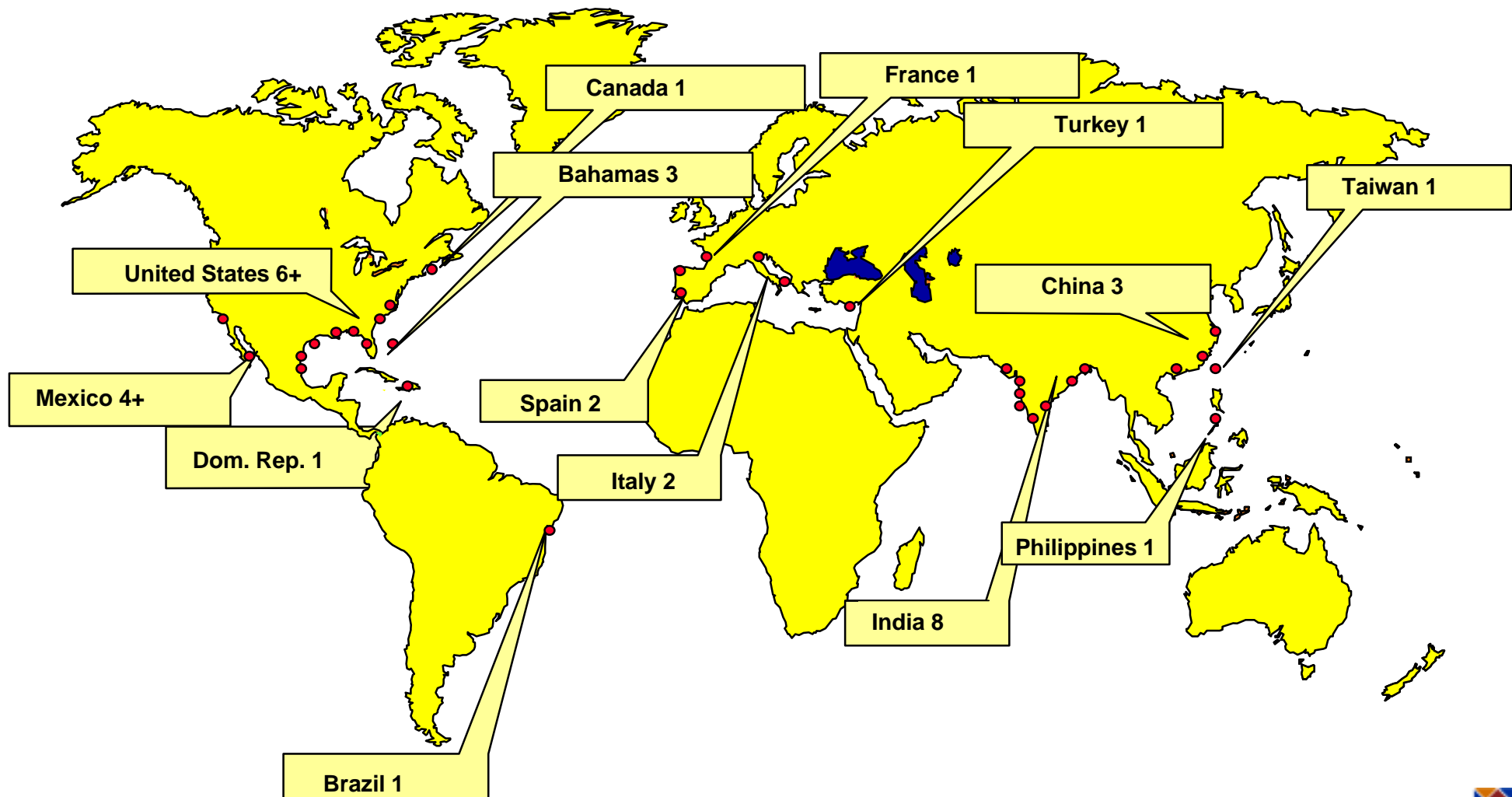
TECHNOLOGY HAS ENABLED PRICE-COMPETITIVENESS FOR LNG VALUE CHAIN



TYPICAL INVESTMENTS (IN MILLIONS)

Gas Producer	Liquefaction	Transportation	Receiving Terminal	TOTAL COSTS	
\$750 - 1,000	\$1,000-1,500	\$500 - 1,500	\$375 - 750	=	\$2,625- 4,750

LNG IMPORT TERMINALS- 35+ PROPOSED PROJECTS



VOLATILITY WILL BE A CONTINUING MARKET FACTOR

Weekly Average Price of the Front NYMEX Natural Gas Contract



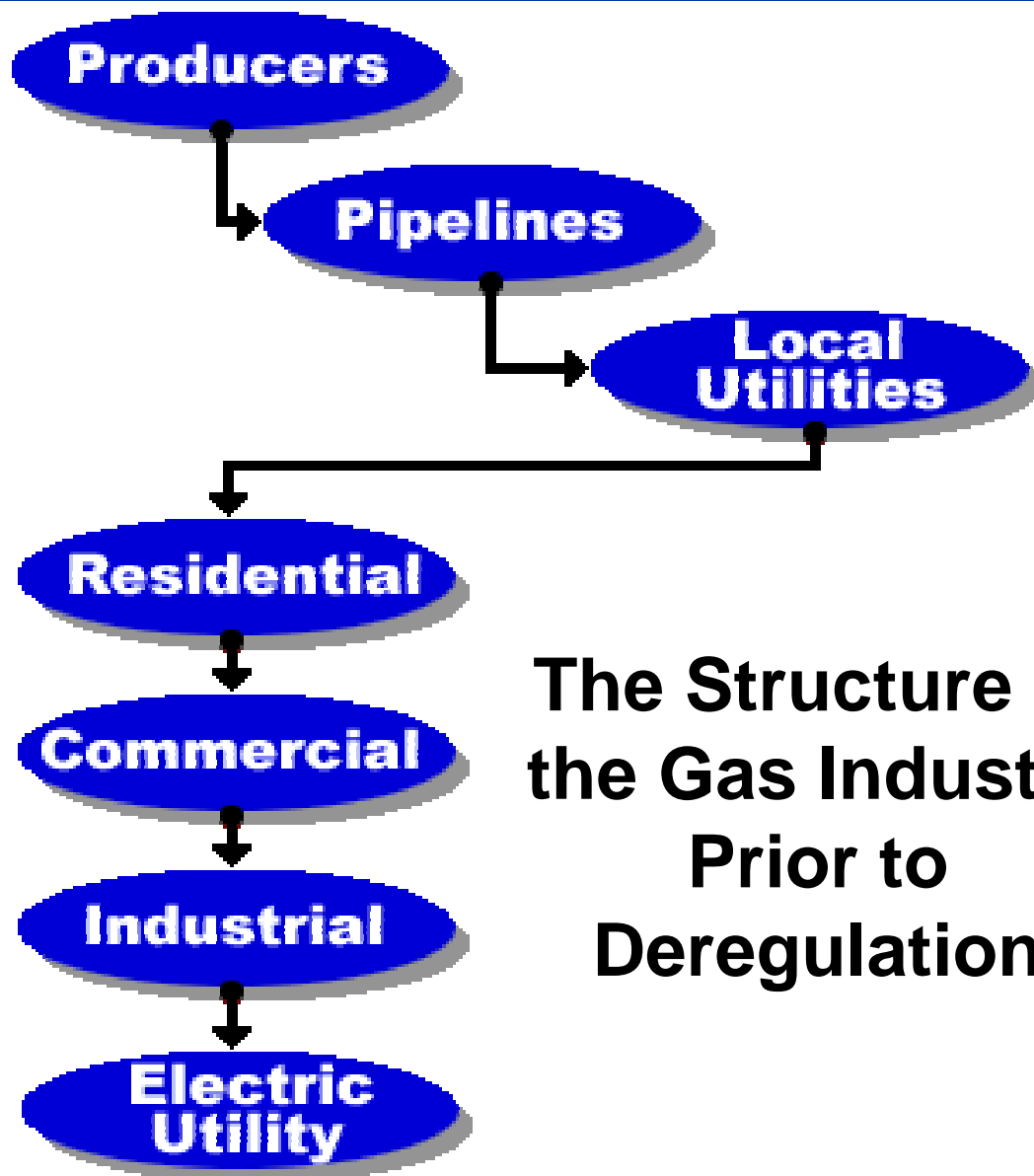
SUMMARY OF NATURAL GAS FUNDAMENTALS

- **Demonstrated Ability to Grow Demand**
- **Limited Domestic Supply**
- **Growing Reliance on Imports**
- **International Competition for New Natural Gas Supply**
- **Continued Market Volatility**
- **Market Constraints Encourage Technological Innovations**

EVOLUTION OF THE NATURAL GAS DISTRIBUTION CHANNEL

- **Regulatory Changes**
- **Increased Transparency of Market Signals**
- **Product Evolution**
- **Risk Management Response**

DEREGULATION CREATED OPPORTUNITIES FOR TECHNOLOGY



**The Structure of
the Gas Industry
Prior to
Deregulation**

The Natural Gas Industry Timeline

1978- The Natural Gas Policy Act

1984- FERC Order 380

1985- FERC Order 436

1990- NYMEX Contract Launch

1992- FERC Order 636

INCREASED TRANSPARENCY OF MARKET SIGNALS

- **NYMEX Launch of a Natural Gas Futures Contract**
- **Development of the Fixed Price OTC Market**
- **Formation of Online Trading Platforms**

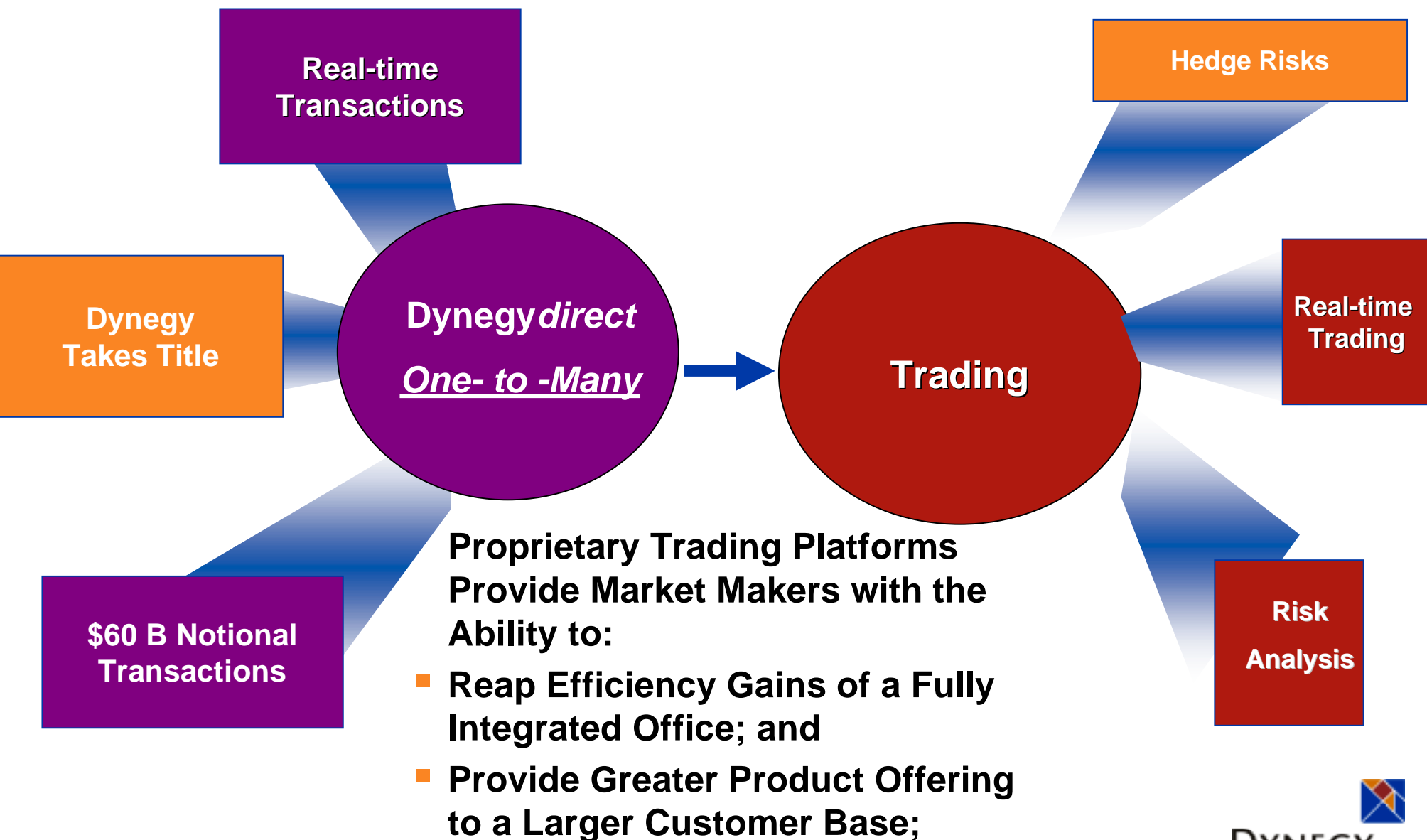
DEVELOPMENT OF TRANSACTIONAL PLATFORMS

Emergence of Online Energy Trading Platforms (including Many to Many platforms) Allows for:

- **Greater Liquidity;**
- **Improved Price Transparency;**
- **Facilitation of Real-time Trading; and**
- **Efficiency Gains of Bringing Buyers and Sellers Together.**



DEVELOPMENT OF TRANSACTIONAL PLATFORMS

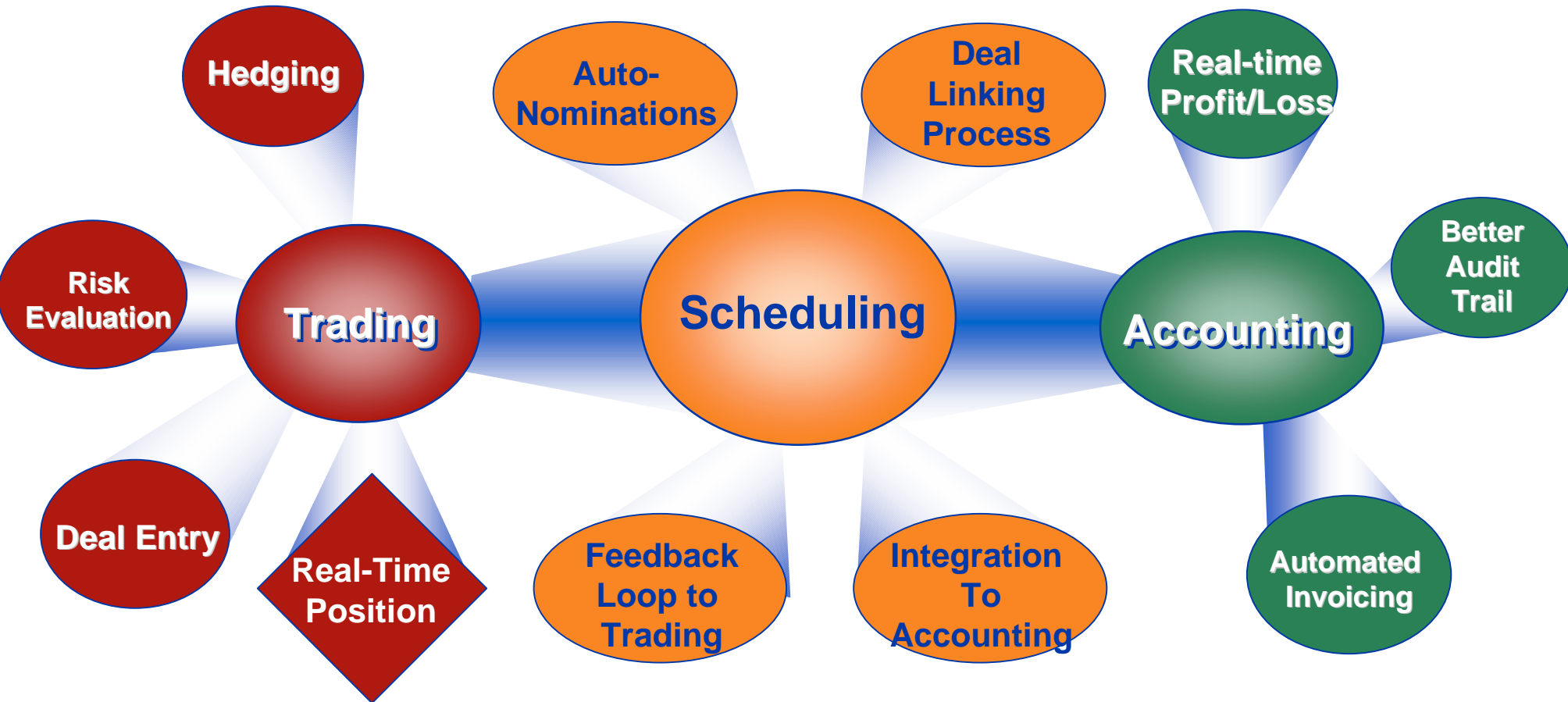


TECHNOLOGY INTEGRATION OF DISTRIBUTION COMPANIES

FRONT-OFFICE

MID-OFFICE

BACK-OFFICE



DYNEGY

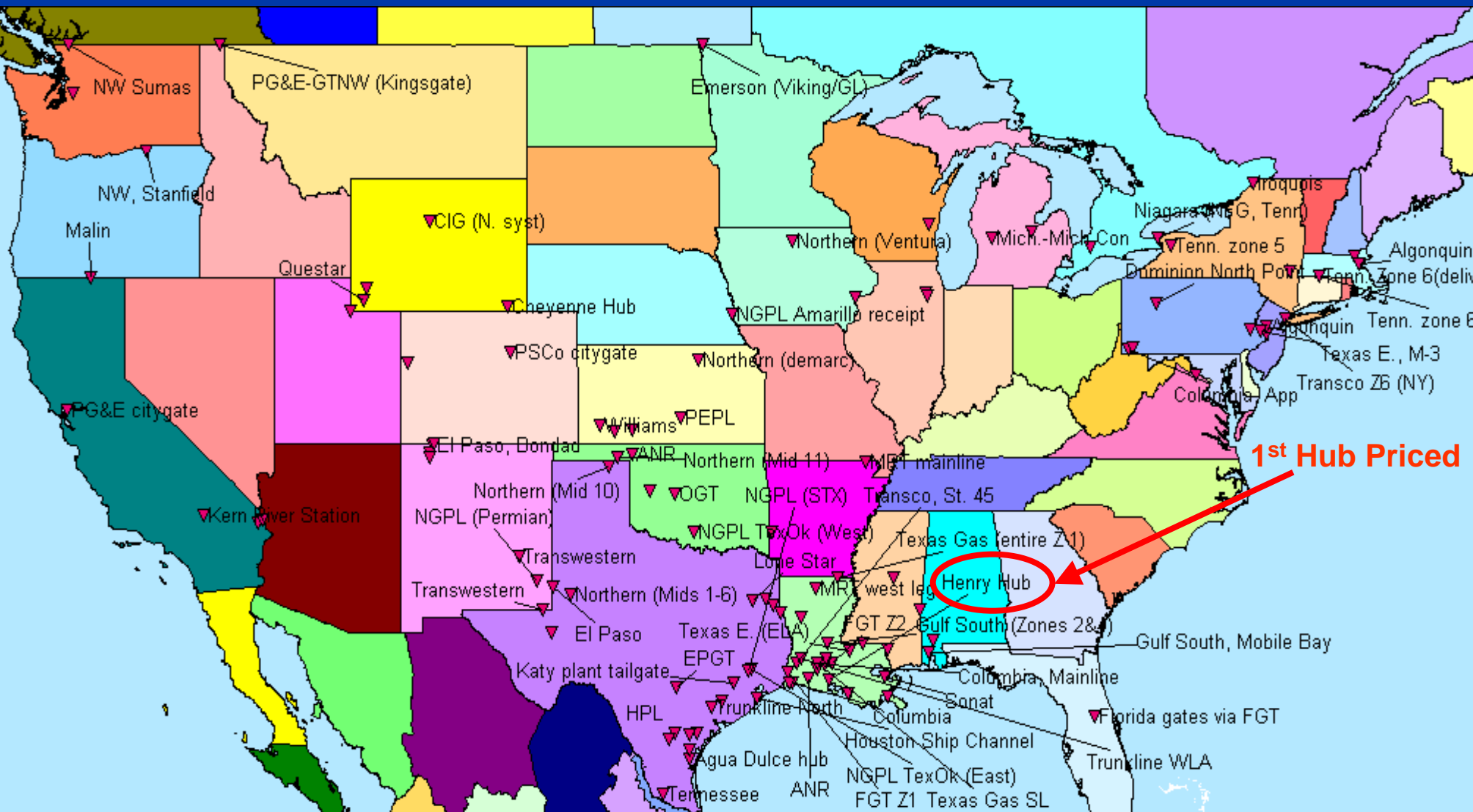
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PRODUCT EVOLUTION

The Natural Gas Product Timeline



IMPROVED LIQUIDITY FOR CONSUMER DRIVEN PRODUCTS



SUMMARY

- **Natural Gas Market Fundamentals are Creating Opportunities for New Technology**
- **Recent Innovations are Directed at Efficiency Gains in the Natural Gas Chain-- from Production Activities to the ways in which Natural Gas is Consumed**
- **Even the Manner in which Natural Gas is Distributed has Changed in Response to Market Signals**
- **Electronic Trading Floors and Front to Back Automation are only the Beginning of Innovation for the Natural Gas Distribution Channel**

